

Pengana Australian Equities Core Fund

October 2008 Update



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Fund Description

The Pengana Australian Equities Core Fund aims to provide investors with an annualised return of 12 to 15% ¹ before fees over the medium term via a concentrated core portfolio of equity and interest bearing holdings. The Fund is managed out of Sydney, Australia and uses fundamental research to evaluate investments capable of generating the target return over the medium term.

Fund Features

| | | | |
|-----------------------------------|---|--|---|
| Style | Fundamental | Management Fees ² (monthly) | 1.00% p.a. of NAV |
| Benchmark | The weighted average of the target Australian Cash Rate used by the RBA | Performance Fees ² (quarterly) | 10% of investment surpluses without impacting on cash return, with standard high water mark |
| Investors | Wholesale Clients only | AUM at Month End | A\$4.3m |
| Minimum Initial Investment | A\$100,000 | Application Price at Month End | A\$0.8897 |
| Inception Date | 30 June 2008 | Redemption Price at Month End | A\$0.8853 |

Fund Commentary

Fund Performance (A\$, net of fees) ³

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | YTD |
|------|-----|-----|-----|-----|-----|-----|-------|------|-------|-------|-----|-----|---------------|
| 2008 | - | - | - | - | - | - | -1.0% | 3.5% | -4.7% | -9.0% | | | -11.2% |

The Fund, while maintaining a cautious approach, took advantage of the very weak equity prices to increase the equity exposure from 52% as at the beginning of the month to close at 62%. This was partly driven by the increasing availability of investment opportunities and partly in anticipation of the new Fund inflows received after the month end.

The Fund disposed of its holding in NewsCorp. These proceeds and cash holdings were applied to acquire new holdings in CBA, AXA, Worley Parsons and Duet. Additional purchases to existing holdings included shares in Seven Network, Primary Healthcare and MCG and IAG.

The Fund's top five holdings are Telstra, Primary Healthcare, Computershare, BHP and Metcash.

The Fund's top performing holdings were Sonic Healthcare, new holdings CBA and AXA, while its exposure to MCG, Mount Gibson, Downer and Mermaid Marine were the major detractors.

Net Returns to 31 October 2008 ³

| | Pengana | Cash Rate | All Ordinaries |
|-------------------------------------|---------|-----------|----------------|
| 1 Month | -9.0% | 0.5% | -11.2% |
| 3 Months | -10.3% | 1.6% | -20.0% |
| Since Inception ⁴ | -11.2% | 2.2% | -30.3% |

Market Commentary

Market Review

The very weak monthly performance by the Australian All Ordinaries was led down by Property Trusts (-25.5%), Energy (-19.3%) and Consumer Discretionary (-19.2%). There were no positive sectors with Healthcare (-2.8%) and Telcos (-2.5%) exhibiting their defensive characteristics.

¹ This is not intended to be a forecast, but merely an indication of what the Fund aims to achieve over the medium to long term. The Fund may not be successful in meeting this objective. Returns are not guaranteed.

² Plus GST and net of reduced input tax credits. Please refer to the information memorandum for a more detailed explanation.

³ Total return performance figures are derived from Manager's records and are shown after all fees, and assume reinvestment of income. Investments can go up and down. Past performance is not a reliable indicator of future performance.

⁴ Inception date: 30 June 2008

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The month under review saw global authorities scrambling to unlock the credit gridlock and restore some semblance of confidence. Significant monetary steps included coordinated interest rate cuts across the major economies and massive levels of liquidity being pumped into the banking systems by Reserve Banks. Aggressive fiscal policies were also evident as the US launched a \$700 billion Troubled Asset Repurchase Program (TARP) starting a trend of government rescue packages that is playing out across the globe.

Most major asset classes experienced record levels of volatility as investor sentiment ricocheted between the gloomy medium term outlook in the real economy and the potential impact of these steps. This is being exaggerated by forced selling and repatriation of funds to the US and Japan as redemptions and hedge fund "deleverage" gain momentum.

Investors are being forced to recognise that a significant addendum to the fiscal and monetary tools is "Time". The high levels of uncertainty and volatility will only come down as time allows the redemptions, deleverage and hidden risks to work their way through the global economy.

Domestically the speed of the deterioration in the Australian economy has been remarkable. The Reserve Bank has cut interest rates by 150 bpts. The sharp fall in the A\$/USD exchange rate has provided some protection against the large falls in commodity export prices but the combination of higher unemployment levels and diminishing demand from our largest trading partners is reducing the GDP growth outlook. Importantly, access to foreign capital remains a significant issue for assessing the outlook for the Australian economy.

Investment Outlook

The fallout from the extended period of low interest rates, easy access to credit and mispricing of risk is currently working its way through phase one. The outcome of the massive and coordinated global government intervention will take time to work its way through the system. A significant potential implication is that those companies that do survive the next 12 months will find the cost of finance significantly cheaper.

Value is emerging in a number of industrial and financial companies with the characteristics of good management, dominant market shares, pricing power and balance sheet capacity. The portfolio remains focused on companies with low levels of exposure to the economic cycle (consumer non discretionary and Healthcare), strong balance sheets and competent management.

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